

TIER 2 VINTAGE RATE PROJECT IMPLEMENTATION PLAN

Tier 2 Team Recommendation, adopted at 5/9/11 PDT

Final Proposed Tier 2 Vintage Rate Framework:

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Purchase Period for Rate: Power at Tier 2 Vintage Rate between FY 2015-2019, with FY 2015-2018 as a back-up. *Instead of FY 2014-2018.*

Reservation price: TBD

Eligibility: Flat purchase amount across FY 2015-2019 up to FY 2015 forecast Above-RHWM Loads greater than 1 aMW, calculated by June 1, 2011, and rounded down to the next whole average megawatt. *Instead of up to FY 2014 forecast Tier 2 Short-Term rate amounts.*

Default: Tier 2 Short-term rate or Unspecified Resource Amounts depending on election made in SOI and concurrently made for 9/30/11 election deadline. *Instead of Tier 2 Short-Term amounts only.*

Process: Fast track with intended release of 6/1/11 and customer signing deadline of 6/30/11. SOI will state that AHWM load election is made for amount subscribed to in SOI at time of signing SOI. *Additional commitment: BPA commits to continue to take the time this summer to develop with interested parties a second vintage rate option that would address some of the other comments received that were ultimately not incorporated in this fast track vintage rate alternative.*

Newly added part of process:

Confidentiality: Eligible customers interested in entering into negotiations for the final SOI will be asked to sign a confidentiality/non-disclosure agreement as a condition of participating in those negotiations.

Stakeholder alternatives presented

(comments available at the following site:

<http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=126>)

TOPIC	BPA PROPOSAL	SUMMARY OF PARTY POSITION	STAFF COMMENTS AND/OR RECOMMENDATION	NEW BPA PROPOSAL	WHY CHANGE OR NOT CHANGE PROPOSAL
Eligibility	Use customers' forecast ARHWML for FY14, if greater than 1aMW (less any resource amounts committed for initial eligibility)	<ul style="list-style-type: none"> • Use FY15 as start year for eligibility, with forecast ARHWML during any year within the purchase period as the year that begins customer-specific eligibility • Any amount of ARHWML, even amounts less than 1 aMW 	<ul style="list-style-type: none"> • Staff supports the change in start year eligibility (note this shift corresponds to starting the vintage rate purchase in FY2015, as discussed below) but does not support different start times by customer • Staff retains its proposal for whole average amounts only 	Use customers' forecast ARHWML for FY15 , if greater than 1 aMW (less any non-federal resource amounts committed for initial eligibility)	<p>This change better aligns BPA with both customer interests and the previously established purchase periods, without exposing BPA and customers to unnecessarily high prices and large purchase obligations in the long-term, based on potentially inaccurate out-year AHWML forecasts</p> <p>Allowing amounts less than 1 aMW does not comport with the existing Tier 2 eligibility requirements in the RD contract and TRM since such amounts are served by the LSC.</p>

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Start Year of Rate	Use FY14 as the first year of the rate	<ul style="list-style-type: none"> Use FY15 as the first year of the rate 	<ul style="list-style-type: none"> Staff supports starting the vintage rate purchase in FY15 instead of FY14 	Use FY15 as the first year of the rate	This change better aligns BPA with both customer interests and the previously established purchase periods
Term of Purchase	Up to five-year sale, FY14-FY18	<ul style="list-style-type: none"> Four- or five-year sale, FY15-FY18 or FY15-FY19 and draft the SOI to have FY15-19 as the primary goal, with a backup alternative of FY15-FY18 embedded in the SOI should a purchase for FY19 prove too challenging to secure Five-year sale, FY15-FY19 because that is how they will be able to get access to the Vintage given what we have currently forecast for them 	<ul style="list-style-type: none"> Staff supports pursuit of a five-year vintage, with a four-year backup alternative embedded in the SOI 	Four- or five-year sale, FY15-FY18 or FY15-FY19 and draft the SOI to have FY15-19 as the primary goal, with a backup alternative of FY15-FY18 embedded in the SOI should a purchase for FY19 prove too challenging to secure	This change better aligns with both customer interests and the previously established purchase periods, and also creates a four-year, back up alternative within the SOI so that if circumstances in the market change a new SOI does not need to be executed

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Process and Timing	Either 1) execute a SOI with a potentially higher or lower than necessary cost cap so that process is concluded and TF can evaluate market opportunities as they arise OR 2) don't finalize the SOI until we see opportunity in market so that a more representative price can be included as the cost cap	<ul style="list-style-type: none"> Offer two vintage alternatives: 1) the fast track version with BPA purchase made by mid-August if possible and 2) the more comprehensive process vintage rate SOI without the 9/30/11 deadline Provide fundamental terms of SOI at least 6-8 wks before due date of signed SOI Provide final SOI terms 4 wks prior to signing deadline <i>(Additional comment came in after the deadline stating that customers would need 8 weeks to consider the SOI)</i> 	<ul style="list-style-type: none"> Staff does not support committing to offering two Vintage alternatives at this time Instead staff supports allowing customers to select either the Short-term rate or unspecified resource amounts for the Vintage rate default; BUT this selection must be made in the SOI and with the signing of the SOI the customer will also be committing to a portion of it above-RHWM load election (language to this effect needs to be added to the SOI). This approach will also provide the Trading Floor a longer window for purchases since the customer election for 2015-2019 will be made at the time of SOI signing. (no mid-August deadline) Staff will endeavor to have framework for the Vintage offered decided by mid-May with a final SOI by end of May/start of June 	<p>Offer one SOI now because we see market opportunities arising and ask for as fast as possible turn around by interested parties</p> <p>We do not intend to force a purchase prematurely however, so we do not intend to include a deadline for BPA to purchase</p>	This lessens the administrative burden of two possible SOI's to process and also gives BPA the freedom to make the lowest cost purchase possible without unnecessary constraints, thereby giving customers that have subscribed to the Vintage rate the best opportunity for low cost market purchases to establish the rate.

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		<ul style="list-style-type: none"> • SOI needs a date certain by which time BPA will execute its purchase • Customers need 8-10 wks to consider SOI framework before can sign offered SOI • Customers need 6 wks to consider final SOI terms before signing 			
Default if Vintage is Not Successful	Tier 2 Short-term rate	<ul style="list-style-type: none"> • BPA should allow customers to elect Unspecified Resource Amounts as their default when electing the vintage rate • Or let them elect a combination of the two 	<ul style="list-style-type: none"> • Staff supports proposal to allow for two default options, but does not support the proposal for a combination of Tier 2 and non-federal service as a default 	Allow customers to elect Unspecified Resource Amounts OR Tier 2 Short-term rate as their default when electing the vintage rate	Since we are offering the Vintage Rate prior to declared elections, this recommendation, provides customers more freedom in their choices without creating any risks for BPA
Capping Purchase Amounts	Cap purchase amount flat at FY14 amount for the term (as opposed to	<ul style="list-style-type: none"> • Allow to purchase up to forecast amount of ARHWML each 	<ul style="list-style-type: none"> • Staff supports capping the purchase amount flat at the FY15 amount for the term of the purchase 	Cap purchase amount flat at FY15 amount for the term rather than at the	Retaining the flat cap across the purchase period, based on the first year of the purchase

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	allowing increasing FY purchase amounts that increase with forecasted load growth)	<p>year of purchase period, subject to rounding recommendation below</p> <ul style="list-style-type: none"> • Cap on the amount a customer take only if there is more interest than anticipated • Only cap if interest exceeds BPA's ability to purchase in the market. 		FY14 amount	<p>period (now FY15), accomplishes several things for BPA:</p> <ol style="list-style-type: none"> 1) it constrains the number of counterparties we must attempt to execute a SOI with, which is helpful because this is a whole new concept for both internal and external stakeholders; 2) prevents customers and BPA from taking on undo remarketing price risk should loads fall and prices fall in ways that are captured by the remarketing credits passed through to customers; 3) creates a smaller

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					<p>purchase amount to secure for the out years than would otherwise be the case with stepped up allowances, which may be easier to procure given the size of purchase; and 4) produces a lower effective price for customers electing this option than would occur should BPA allow stepped up amounts.</p> <p>2) Helps limit the large risk around load projections going out past 5 years.</p>
Rounding Purchase Amounts	Round down to next whole average megawatt	<ul style="list-style-type: none"> Round to next whole average megawatt, i.e., up or down (using conventional 	<ul style="list-style-type: none"> Staff does not support the rounding up proposal 	No change	We will be purchasing in whole average megawatts and customers cannot purchase more than their

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		rounding methods)			net requirement. The TRM already has a process for dealing with aRHWM load less than 1 aMW.
Confidentiality	n/a	<ul style="list-style-type: none"> Make max weighted price in SOI confidential so bids not biased 	<ul style="list-style-type: none"> We could probably redact the numbers if we post a final version on our website Also, interested customers can sign a confidentiality/ nondisclosure agreement prior to entering final price negotiations to finalize the SOI 	Have customers sign a confidentiality/ nondisclosure agreement	Stakeholders present a reasonable argument for adding additional security
Carbon Emission	n/a	<ul style="list-style-type: none"> Make sure acquisitions do not exceed WA and OR carbon emissions limits 	<ul style="list-style-type: none"> Staff cannot commit to this requirement as these rules apply to customers and the onus is on them to make purchase decisions that enable them to meet these requirements. Additionally as a Federal entity, BPA can not agree to be subject to current or unknown future State standards 	No change	Our legal requirements have not changed
Transmission Rules and Level Playing Field	Silent on this in initial proposal	<ul style="list-style-type: none"> Follow same rules and face same complications forced on customers for non- 	<ul style="list-style-type: none"> Staff committed to evaluate pursuit of a sleeve Other discussions are beginning related to the potential alteration of 	No significant change proposed at this time	The original set of requirements in the RD contract regarding customer obligations for procuring specific types

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		federal resources OR change requirements for customers <ul style="list-style-type: none"> Tendency to not want to see BPA rates artificially inflated 	customer requirements in the RD contracts <ul style="list-style-type: none"> Staff is concerned about and finds it difficult to support proposals that might unnecessarily raises cost for Vintage customers simply to “level the playing field” 		of transmission for specific types of benefits were long debated and required by BPA for sound reasons These reasons were associated with limiting the risk placed on other customers and passing through the requirements BPA faces when serving both directly-connected and transfer loads
Potential for Damages by Switching from STR to Vintage	If we see market opportunities for FY14 that suit the needs of the STR purchasers and the vintage rate SOI process is prolonged, we will move forward and make STR purchases and customers could be subject to conversion cost damages	<ul style="list-style-type: none"> BPA should be careful about buying in advance of need if offering or planning to offer a Vintage Exercise ability to hold off purchasing for Short-term while developing and pursuing a Vintage Rate 	<ul style="list-style-type: none"> Issue is disposed of by 1) moving to FY15 as the start year and 2) allowing those customers that want the ability to have Unspecified Resource Amounts as their default 	Issue is moot if move to FY15 as start year	We will know exactly who to procure for and who not to procure for given this change No unnecessary liquidated damages will be assessed ARHWML elections will be self-executing for these loads
Purchase	Market-based	<ul style="list-style-type: none"> BPA should be 	<ul style="list-style-type: none"> There has not been sufficient 	No change	Insufficient load interest

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source for Vintage rate	purchase	focusing its vintage rate on small renewable resources developed in its customers' service territories <ul style="list-style-type: none"> Focusing on market purchases is short-sighted 	interest in a renewable resource-based Vintage to date to warrant its pursuit <ul style="list-style-type: none"> This issue will be revisited in the future 		exists to change
SOI edits	Supplier default/dry hole risk section regarding temporary and permanent interruptions in purchase	<ul style="list-style-type: none"> Needs to be cleaned up and need to add something about end of purchase period effects Need to include specific language in the SOI regarding a VCRAC to collect for default costs 	<ul style="list-style-type: none"> Staff supports the clean up suggestion Staff supports the VCRAC idea 	SOI will be updated to clarify necessary areas	Some suggestions are valid and will be incorporated after deliberating the proposed changes to the framework

Timeline

Date/Time	Activity	Lead	Status
May 18 (AM)	Meeting to go over any questions on final framework/next steps and	Chalier/Wellschlager/Kaseweter	
May 18	Release date for pricing cap Confidentiality Agreement for interested and eligible parties to sign (deadline to sign: COB, 5/25)	AE's	
May 26	<i>Tentative</i> meeting with confidentiality agreement signers to work through weighted average price included in final SOI and to go over revised SOI	Wellschlager/Chalier	
May 31	<i>Tentative</i> conference call/meeting with eligible customers to review final SOI	Wellschlager/Chalier	
June 1	Offer SOI	Chalier and AE's	
June 1-31	Assist customers' board presentations, deliberations, etc. as necessary	Chalier, Wellschlager, AE's	
July-August	Develop second offer for VR1-2016 (stepped amounts)	Chalier, Wellschlager, etc.	
September 30, 2011 (under discussion based on NRU 5/10/11 letter)	Deadline for customers to make their above-RHWM load elections for the FY 15-19 period	Customers	

Outreach necessary for the following customers:**Amounts of Load That Could Be Eligible for Vintage Rate Service 1/**

	Customer Name	Customer Type	AE	FY2015 Above-RHWM Load	Amount Eligible FY2015, Prior to Rounding	Rounded Down Amount FY2015
1	TANNER	LF	Greene	1.249	1.249	1
2	CENTRALIA	LF	Watts	1.250	1.250	1
3	CHENEY	LF	Normandeau	1.223	1.223	1
4	BIG BEND	LF	Felton	1.828	1.828	1
5	COLUMBIA REA	LF	Felton	6.020	6.020	6
6	LOWER VALLEY	LF	King	6.083	6.083	6
7	WELLS	LF	King	8.805	8.805	8
8	ELLENSBURG	LF	Normandeau	1.307	1.307	1
9	RICHLAND	LF	Felton	5.451	5.451	5
10	HEYBURN	LF	King	1.815	1.815	1
11	SALEM ELEC	LF	Farleigh	1.498	1.498	1
12	BURLEY	LF	King	6.086	6.086	6
13	PNGC	LF	Hobson	31.889	28.921	28
14	UNITED	LF	King	4.339	4.339	4
15	PENINSULA	LF	Reich	2.146	2.146	2
16	CLALLAM PUD	LF	Greene	1.807	1.134	1
17	EMERALD	Slice	Rockwood	3.658	3.658	3
18	EWEB	Slice	Rockwood	3.758	3.758	3
19	GRAYS HARBOR PUD	Slice	Forman	15.661	15.661	15
20	SEATTLE	Slice	Clark	14.230	14.230	14
21	SNOHOMISH PUD	Slice	Clark	22.833	22.833	22
22	OKANOGAN PUD	Slice	Felton	4.386	4.386	4
23	FRANKLIN PUD	Slice	Felton	3.444	3.444	3
total				150.766	147.125	137.000

1/ Unlike the values shared at the March 3rd public workshop, these values were generated on March 15, 2011, and do reflect the CHWMs that were released on March 11, 2011.